### Email to: <u>AAT@frc.org.uk</u> For the attention of Kate Dalby

Ms K Dalby Financial Reporting Council 8th Floor 125 London Wall London EC2Y 5AS

Dear Kate

### Proposal to Revise the UK's Quality Management Standards

Thank you for the opportunity to comment on the Financial Reporting Council's (FRC's) proposed revisions to the UK's Quality Management Standards.

Our responses to the consultation questions in the exposure draft are as follows:

## Q1. Do you agree that ISQM (UK) 1, ISQM (UK) 2, and the revised ISA (UK) 220 should be adopted in the UK, alongside the related conforming amendments to other ISAs (UK)? If not, please give your reasons.

YES

We agree that ISQM (UK) 1, ISQM (UK) 2, and the revised ISA (UK) 220 should be adopted in the UK, alongside the related conforming amendments to other ISAs (UK).

However, the implementation of these new quality management standards will be a challenge, even for the larger firms, and we believe that smaller firm's will struggle to fully implement the new standards by the 15 December 2022 deadline without further implementation support and might need to be given additional time to implement the standards in full.

Q2. If you agree that the ISQMs (UK) and ISAs (UK) should be revised to adopt the revisions to the underlying international standards, do you agree that the proposed UK supplementary material is appropriate? If not, please give your reasons and explain what further additions or subtractions should be made.

#### YES

Although we consider that the proposed UK supplementary material is appropriate, we believe that more practical guidance on implementation should be given that would clarify some of the more subjective elements of ISQM1. We recommend that the FRC engage with firms, particularly smaller firms, to determine what further practice implementation material is needed and commit to providing ongoing support as implementation progresses.

# Q3. Is the proposed effective date, which is consistent with the effective date of the IAASB's revised ISQMs and ISAs, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.

NO

Although the FRC's proposed effective date of 15 December 2022 will bring the UK into line with the implementation of the IAASB's revised quality management standards it should be recognised that whereas the IAASB allowed a 24 month implementation period from the date of approval of the standards the FRC's proposal might only give an 18 month implementation period for UK firms.

The timetable for implementation of these standard should take into account that as we start to come out of the Global pandemic caused by Covid-19 many firms are still catching up on audit work that has been delayed and there are audit issues relating to the pandemic, not least going concern and impairments, that firms are having to spend additional time and resource on. Furthermore, the UK is going through a period of far reaching audit reform which could have significant consequences on the way that we perform audits in this country and any requirements introduced by the new quality management standards will have to be reconsidered in the light of the audit reform recommendations.

As noted above, even without the additional burdens of Covid-19 and audit reform, we believe that the implementation of these standards by 15 December 2022 will be a challenge to all firms, and in particular smaller firms, and, in the light of the current demands on UK auditors, we recommend that the FRC gives UK firm's more time to fully implement these new standards.

We note that the FRC states that early adoption is strongly encouraged and encourages firms to communicate the stages of implementation of their quality management system in their Transparency Reports. In the light of what is going on in the UK at the moment, if the FRC is going to require a 15 December 2022 implementation date, we do not believe that the FRC should be strongly encouraging early adoption of the full set of standards as this will put too much pressure on firms to accelerate the implementation process and should consider whether, if consistency with the IAASB is important to the FRC, whether certain elements of the new standards could be prioritised ahead of others.

Q4. ISQM (UK) 1 requires the auditor to establish a monitoring and remediation process that identifies, evaluates and responds to findings that result in one or more deficiencies in the firm's system of quality management. Do you agree with this approach or should the standard include requirements for firms also identify, evaluate and respond to positive outcomes and opportunities? Please give reasons for your response.

### YES

We agree with the proposal that auditors establish a monitoring and remediation process that identifies, evaluates and responds to findings that result in one or more deficiencies in the firm's system of quality management. In our view, although there are potential benefits of identifying, evaluating and responding to positive outcomes and opportunities the new standards are challenging enough without mandating this additional burden.

Q5. The requirements in ISQM (UK) 2 are currently applicable to all engagements for which an engagement quality review is required to be performed. Do you believe that ISQM2 could be enhanced through further requirements and/or application material for non-assurance engagements. If so, please give your detailed reasons and explain how ISQM (UK) 2 could be enhanced, in the context of a non-assurance engagement.

### NO

We do not believe that ISQM2 should apply to or be enhanced through further requirements and/or application material for non-assurance engagements.

In addition to firm's performing audits the proposed ISQM1 applies to firms performing reviews of financial statements, or other assurance or related services engagements and if this question was intended to refer to these "non-audit" assurance engagements we do not believe that any further enhancements to ISQM2 are needed. We would recommend that if any further guidance is needed it should be added to the FRC's standards that deal with these non-audit assurance engagements for example for reporting accountants acting in connection with an investment circular further guidance could be added to the FRC's Standards for Investment Reporting.

If you have any questions about this response or would like any further clarification, please contact me by telephone on **second second second** 

Yours sincerely

Hugh

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